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RUEHLP/AMEMBASSY LA PAZ FEB 0435  
RUEHPE/AMEMBASSY LIMA PRIORITY 1432  
RUEHGL/AMCONSUL GUAYAQUIL PRIORITY 1941  
RHMFIUU/DEPT OF ENERGY WASHINGTON DC PRIORITY  
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SIPDIS

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DEPT FOR WHA/EPSC FAITH CORNEILLE  
TREASURY FOR SGOOCH

E.O. 12958: N/A

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SUBJECT: FIRST VENEZUELAN DIESEL SHIPMENT ARRIVES IN ECUADOR

REF: Quito 173

¶1. (U) Summary: President Correa and Venezuelan counterparts celebrated the arrival of the first shipment of Venezuelan diesel under an Ecuador-Venezuela petroleum exchange agreement with a ceremony on board Venezuelan ship Manuela Saenz February 23. The crude-for-derivatives exchange agreement is part of a larger set of cooperation agreements signed between the Correa and Chavez administrations January 16 (see reftel). In exchange for the shipment and two additional deliveries planned for March, Ecuador will begin shipping crude to Venezuela March 15. The GOE has said this arrangement will save Ecuador USD 1.5 per barrel in purchasing derivatives (close to USD 1 million for the three scheduled shipments). End Summary.

¶2. (U) President Correa, Ecuadorian Ministers of Energy, Culture, and Defense, President of state oil company Petroecuador, Venezuelan Energy Minister Rafael Ramirez, and Venezuelan Embassy officials, along with state oil company representatives from both countries attended the ceremony in the port of Balao, Esmeraldas. Also present were representatives of state oil companies from Chile, Peru, Brasil, Uruguay, Colombia, and Argentina.

¶3. (U) Correa praised the arrival of the shipment, noting that Venezuela was able to deliver in less than 40 days what had not been able to be accomplished in four years for lack of political will. Venezuelan Energy Minister Ramirez spoke of Venezuela's disposition to create more petroleum sector contracts to benefit both countries. Ecuador will send a government delegation to Venezuela shortly to seek further joint energy projects; Ecuador's Ambassador-designate to Caracas Rene Vargas has suggested the construction of a new refinery in Ecuador as a possibility.

Details of the Exchange

¶4. (SBU) This first shipment totaled 220,000 barrels of diesel, as per the initial exchange agreement. Two additional shipments of 220,000 barrels each are scheduled to arrive in Ecuador between the 15-17 and the 22-24 of March. In exchange, Petrocomercial International Sales Manager Carlos Izurieta stated that Ecuador expects to ship 1.08 million barrels of crude during the first quarter of 2007, and expects to use an exchange rate of 1.5-1.6 barrels of crude for one barrel of derivatives. Venezuelan Energy Minister Ramirez confirmed that Venezuela expects the first shipment of Ecuadorian crude to arrive in Venezuela March 15. Information on how much this exchange benefits Ecuador by purportedly "cutting out the middleman" is unclear - official GOE calculations put the

savings for Ecuador at USD 1.5 per barrel of derivatives (a savings of close to USD 1 million for the three scheduled shipments), but details on this calculation have not been released.

15. (SBU) Comment: The arrival of derivatives in Ecuador, on time and with the agreed quantity, appears to show a strong political will by the GOV to demonstrate that the crude-for-derivatives exchange is a serious and not merely a symbolic agreement that can deliver real benefits to President Correa and Ecuador. Although we lack details, we suspect that the exchange may be an economic loser for Venezuela given transportation and other costs. If Ecuador does indeed enjoy the reported cost savings from the exchange, it makes sense to continue with the arrangement. If it turns out there are hidden costs for Ecuador, or if there is any delay in the arrival of derivatives from Venezuela (which could affect Ecuador's domestic energy supply), support for the arrangement could deteriorate.

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